



DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT MANAGEMENT COMMAND
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IN REPLY
REFER TO

AQOD

SEP 22 1997

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS
COMMANDERS, DCMC CONTRACT ADMINISTRATION
OFFICES**

**SUBJECT: DCMC Memorandum No. 97-057 , Process Improvement Cost Savings
and Avoidances (INFORMATION)**

This is an INFORMATION memorandum. It expires in one year. Target
Audience: All DCMC personnel involved with process improvement activities.

As we approach the end of FY 97, the metrics data for process improvement cost savings and avoidances shows that we are not doing as well for FY 97 as we did last year. Not counting "special" non-recurring opportunities, we are approximately \$350 million below the process improvement cost savings and avoidances reported for FY 96. As a result, we will probably not meet the DCMC performance goal of a 10 percent increase in Return on Investment over the FY 96 baseline.

Informal feedback from field personnel indicates there is some confusion about what should be reported for process improvement cost savings and avoidances. We believe some of our process improvement "shortfall" may have been caused by under-reporting due to this confusion. So, to clarify our policy, reportable process improvement cost savings and avoidances are not limited to those situations where there is a formal DCMC and contractor teaming agreement. Please report any cost savings and cost avoidances that result from DCMC participation in, and contribution to, contract performance/process improvement activities. This includes all DCMC Continuous Improvement Opportunities contractors have implemented and all process improvements resulting from DCMC, DCAA, contractor, and/or customer teaming activities. Examples there include Integrated Product Teams and Process Oriented Contract Administration Services activities. (It also includes Single Process Initiative (SPI) efforts; but please report SPI-related cost savings and avoidances separately under the new SPI data base reporting system. DCMC Headquarters will consolidate the two sets of numbers). Cost savings are defined as actual contract price reductions, or the return of money to the Government. Cost avoidances are reductions to future expenditures, and should be totaled for flexibly priced contracts over the total contract life.



If you have any process improvement savings and avoidances that you have not previously reported because of misunderstandings, please report them as soon as possible.

If you have any questions regarding this memorandum, please contact Mr. Robert Kennedy, Contractor Capability and Proposal Analysis Team (AQOD), at (703) 767-3382 or DSN 427-3382, or via the Internet at robert_kennedy@hq.dla.mil.


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